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Military Market

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He's 'Fluffing the Lettuce' at TSA

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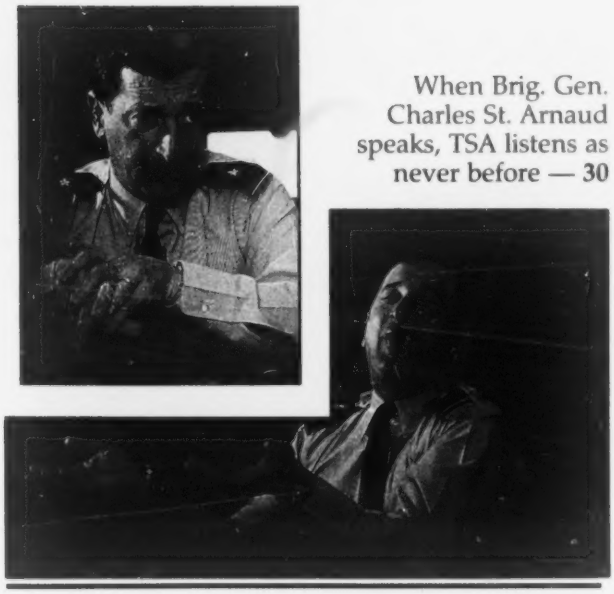

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Oct. '88 Oct. '89

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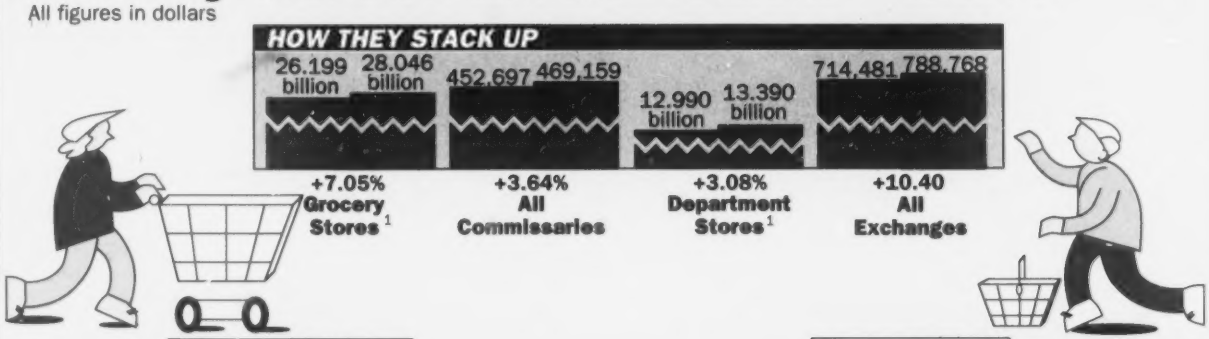

COMMISSARIES

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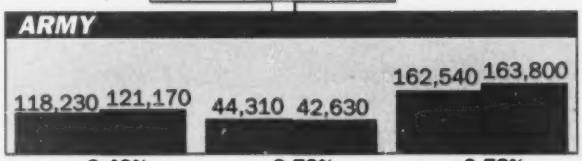

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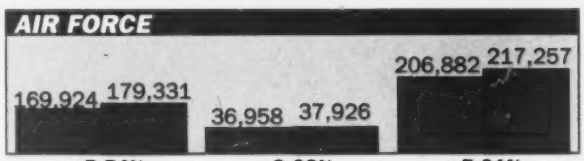

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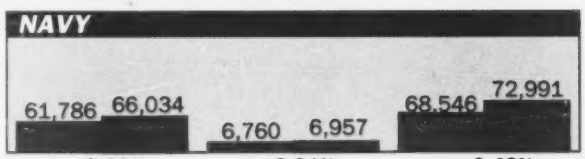

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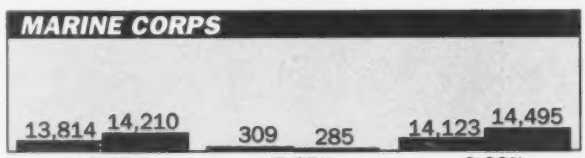

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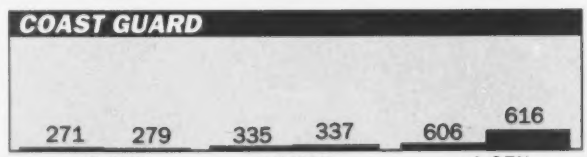

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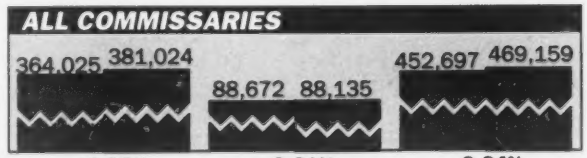

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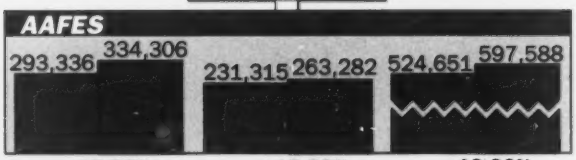

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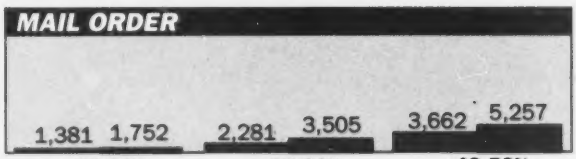

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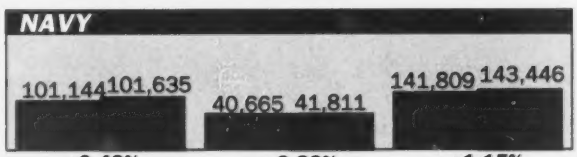

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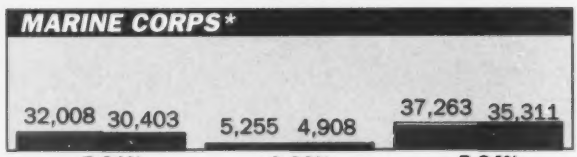

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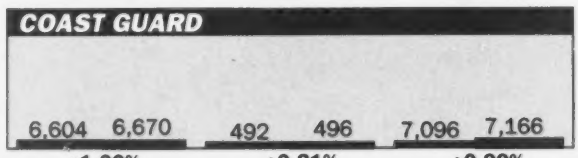

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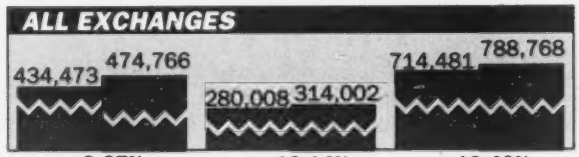


1) Source: U.S. Department of Commerce. 2) Does not include sales of ship stores. 3) MM estimate, based on official data. 4) Includes consolidated sales for all services, including Coast Guard. NOTE: Individual figures may not add to totals because of rounding. All sales are expressed in thousands (000), except grocery stores and department stores, which are in billions. Commissary sales include appropriate surcharges; exchange sales include concession volume.

*Because of MWR consolidation, Marine Corps exchange sales in 1989 are not comparable to 1988 sales.

Marty Baumann

CREDIT CARDS

Affinity card revenues continue to rise

Since June 1989, AAFES has received $117,718 in fees for new accounts from its affinity credit card program. And the sea-service credit card program for the Navy, Marine Corps, and Coast Guard generated almost $55,000 in revenues for the three services' MWR programs since it began in September 1989.

Under the contract with Dallas-based First USA Bank (formerly called Lomas Bank USA), each agency receives $6 for every credit card approved for enlisted service members, and $10 per card approved officer card. In addition, the services get $4 each time the cards are renewed.

The Navy Resale and Services Support Office generated $31,736 from September through November 1989 — the first three months of the program. The Marines received $16,037 and the Coast Guard $5,600 during the same three months.

All profits generated through this program go towards morale, welfare, and recreation activities of each service. "We believe the program will continue to grow, which will help out all the MWR activities," said Paul Feuer, NAVRESSO's contracts group deputy commander.

In December 1988, the Navy awarded a three-year contract to First USA for the NAVRESSO affinity card program. The MasterCard and Visa program is modeled after a similar one run by AAFES.

The Navy contract offers the same credit card services to the Marine Corps and the Coast Guard, which have piggybacked onto NAVRESSO's contract, negotiated with the same terms as the AAFES contract.

To qualify for the card, active duty military personnel must have a monthly household gross income of $1,200 if living off base, or $850 if living in government quarters.

The program's objective is to help service members, especially lower graded enlisted personnel ranked E-1 to E-4, establish a line of credit, said Lee Phillips, assistant head of the Marine Corps' Retail Operations Branch. "The primary thing," he said, "is that it's going to build a credit history for young enlisteds."

The program also features a monthly rate of 16.9 percent, travel and accident insurance for up to $250,000, emergency cash, an airline ticket credit line, checks at no cost, car rental discounts, and a toll-free travel message service.

1989 Affinity Credit Card Program Revenues

	Sept.	*Oct.*	*Nov.*	*Total*
NAVRESSO	$3,094.00	$12,671.00	$15,971.00	$31,736.00
MARINES	946.00	7,272.00	7,819.00	16,037.00
C. GUARD	934.00	2,287.00	2,369.00	5,600.00
	$4,974.00	$22,230.00	$26,159.00	$53,373.00

OVERSEAS

DPSC plans July beef shipments

DPSC is proceeding with plans to procure U.S. beef for commissaries in Europe, with a target date of the end of July for the first shipments. The agency released a request for information on Dec. 22, outlining its intention to buy about 31 million pounds of chilled boxed beef.

A Defense Personnel Support Center press release explained that commercial buying practices will be used, and contractors will be selected using the "Best Value" techniques.

A presolicitation conference Jan. 17 at DPSC drew representatives from about 15 companies. "We were pleased with the turnout," said Navy Capt. Ned Kuhns, commander of subsistence field activities and director of subsistence. "We had both small and large businesses represented."

Kuhns said that questions from the companies centered around such areas as the technical approach, transportation, quality considerations, corporate experience requirements and in-theater management capabilities. DPSC will take the questions and suggestions given at the meeting and use them in developing a request for proposal (RFP). Bids will be due 30 days after the RFP is released.

The initial order ship time will require 45 days, Kuhns said. After that, orders will be taken in 30-day cycles, divided into 4-week increments. The commissaries will submit an order for one month's time every 30 days. Refrigerated container deliveries will be made once a week. These will be sourceloaded, multi-stop deliveries.

The U.S. beef delivery applies only to Central Europe and the United Kingdom, and was mandated by Congress.

REORGANIZATION

AAFES heads still without a roof

At press time, the Army and Air Force Exchange Service still had not found a building to house offices for its four region directors and their staffs.

Despite numerous rumors about the location of the building, the agency is still negotiating with several commercial realtors in Dallas. The new AAFES Operations Center, or AOC, will be located somewhere in the Dallas/Fort Worth metroplex.

The AOC will be housed in a leased building, possibly in the Farmer's Branch area, informed sources told MILITARY MARKET. The exchange service reportedly needs at least 150,000 square feet of office space for the new facility.

Farmer's Branch is about 30 miles north of AAFES' South Dallas headquarters.

Frozen food challenge

Shelf Space *vs* Products, Demand

MARKET REPORT by Karen McBeth, Associate Editor

The yearly blizzard of frozen food introductions may be freezing the market. Neither cooler space nor customer demand can keep up with the proliferation.

And the problem is worse in the military.

Civilian retail frozen sales in 1989 are expected to increase about 5 percent — respectable, but not earth-shattering. Military shoppers bought about $350 million worth of frozens in U.S. commissaries for the 12 months ending in September 1989, according to Military Audits of Market Information data. Commissary sales of frozens are up less than 5 percent.

Each year, manufacturers parade more than 1,000 new frozens before retailers; in 1988, *Grocery Marketing* magazine counted 1,114 introductions. The president of Winn Dixie stores, quoted in *The Frozen Food Executive*, said the annual total is more than most grocery chains now stock. Stores place too many items in their cases and find they cannot "do justice to the volume of merchandise."

Retailers have increased the amount of space devoted to frozens by 20 percent during the past five years, according to *Progressive Grocer*. And commissaries are doing what they can to add volume: AFCOMS reports its new stores have about 50 percent more frozen space. But in older stores, "We're pretty much capped out at shelf space in the frozen category," spokesman Mike Hawkins told MILITARY MARKET.

Manufacturers are being asked to back up their introductions with market research to make sure new products will be hits, and retailers want more "guaranteed" sales on new items. At the same time, they are forced to eliminate those frozens that don't fit with what customers are buying.

If the cases are arranged properly, sales should keep growing steadily, and microwave ovens continue to melt resistance to the category. Between 75 percent and 80 percent of all U.S. households own at least one microwave oven, and Campbell Soup's Microwave Institute predicts that 95 percent of homes will have microwaves by the year 2000.

A look at the hot categories reveals that many of the items are designed with the microwave in mind.

Healthy Dinners

A CEO recounts the real-life story of his heart attack, and his search for foods to follow his new diet — which led to the creation of the Healthy Choice line. A Weight Watchers ad says, "Maybe we should have called them Health Watchers."

The emphasis is on healthy eating, and it started with reduced-calorie items. Now, low-calorie frozen dinner sales outpace their full-calorie counterparts. While the dinner/entree subcategory maintains steady growth of about 2 percent to 4 percent, the reduced calorie segment shows at least 12 percent annual growth. These items account for about 46 percent of the entree category.

The National Frozen Food Association reports that the popularity of reduced-calorie frozens has led to "more and more products being reformulated and offered in a reduced-calorie version." According to the Department of Commerce, more than one-third of U.S. households purchased low-calorie frozen entrees in 1988.

Yet in the military, sales of frozen diet dinners and entrees declined slightly for the 12 months ending in September. MAMI figures show the segment down 0.38 percent, probably because of the military's display space crunch.

But diet products fared better than full-calorie: the regular entrees segment declined 5.85 percent, according to MAMI; while the regular dinner segment dropped 3.56 percent.

Manufacturers are responding to demand by creating lines that are low in just about everything — cholesterol, fat, sodium, tropical oils.

Last October, Stouffer began national marketing of Right Course. Analysts cited in *Advertising Age* newspaper speculated that the new line may cannibalize Stouffer's regular entrees and its Lean Cuisine line. The newspaper reported that unit volumes for those two lines had slipped 12 percent in 1989. Also last fall, ConAgra completed national rollout of its Healthy Choice frozen dinners. MAMI data for the three months ending in September already showed Healthy Choice in key positions. The Salisbury steak dinner was ranked No. 13 for packages sold and No. 12 in dollar sales. The sirloin tip dinner reached No. 14 for packages sold and No. 13 in dollar sales. This is without full distribution.

Campbell Soup Co.'s Le Menu LightStyle reportedly has had a 50 percent commercial volume gain in the year ending Aug. 31. Early last year, Campbell repositioned the line to accent the nutritional content, rather than just the low-calorie aspects.

H.J. Heinz is doing the same thing with its Weight

Watchers' line, emphasizing health aspects like no butter, no chicken fat, no tropical oils and no added cream. A marketer for the company has said Weight Watchers will work to make its line more nutritious rather than introduce a separate line to compete with Healthy Choice and Right Course.

Fast Foods

The fast foods/snacks segment is the fastest growing for the military, according to MAMI data — for the 12 months ending in September 1989, dollar sales were up 24.3 percent.

The National Frozen Food Association reports that "frozen microwavable sandwiches have experienced tremendous gains." In the civilian sector, frozen hamburger/cheeseburger sales were up 65.8 percent in the 52 weeks ending April 21, 1989, while frozen sandwich sales were up 52.4 percent, according to Arbitron/SAMI.

AFCOMS reports that soup/sandwich combinations are hot sellers in Air Force stores. MAMI data supports this: AFCOMS had the highest growth in dollar sales for the fast food segment, with a 31.54 percent increase.

For commissaries as a whole, the top dollar sellers for the 12 months ending in September were: #1 — Micro Magic Cheeseburger; #2 — Hot Pockets 2-Pack Pepperoni Pizza; #3 — Hot Pockets 2-Pack Ham & Cheese; #4 — Micro Magic Chicken Sandwich; #5 — Micro Magic Hamburger.

Breakfast Items

It's rise and shine time for frozen breakfast. Civilian figures for dollar growth during 1988 range up to 30 percent. Analysts predict growth will continue at an annual rate of at least 12 percent in dollars and 9 percent in pounds. Buyers for commercial groceries have targeted breakfast items as the most promising frozen segment.

MAMI data for the 12 months ending in September 1989 show frozen waffles (the only breakfast food tracked) as the second fastest growing frozen segment, with an 18.88 percent increase in dollars.

NAVRESSO headquarters commissary personnel agree that "new microwavable breakfast foods are showing strong growth."

Commercially, Campbell's Great Starts line reportedly leads the segment with a 30 percent share. A recent entry is Weight Watchers' calorie-controlled microwave breakfasts, which were to be in select test markets beginning in October. The 13-item line includes pancakes, French toast, muffins and breakfast sandwiches.

Ethnic

Sales of ethnic food products are expected to grow an average of more than 7 percent annually, reaching $12 billion by the year 2000.

AFCOMS reports Mexican foods are a hot segment. According to MAMI, dollar sales of frozen Mexican food were up 5.65 percent for the 12 months ending in September. Pizza sales declined 3.67 percent.

Kids Meals

NFFA reports that "while entrees for toddlers and younger children began appearing in 1988, 1989's new twist was entrees targeted at older children who can prepare meals themselves in the microwave." They feature colorful packaging with games, puzzles and prizes.

Continued

The yogurt solution

Frozen yogurt machines will be pumping up sales in the military, as ripples from commercial grocery store success spread. A.C. Nielsen has predicted 150 percent growth for 1989. In addition, many exchanges are scooping their commissary counterparts by bringing the soft-serve treat inside *their* doors.

"The market for frozen yogurt, virtually nonexistent a decade ago, has exploded in recent years and can expect sweet success into the '90s," reports the Frozen Food Executive.

Retailers buy hard-pack yogurt from producers like Dannon, Borden, Dreyer's, Kraft, Honey Hill Farms, and International Yogurt. Vanilla is the favored flavor, with chocolate second and strawberry third.

In commissaries, brokers run the programs, supplying all equipment and personnel. Their employees operate the soft-serve dispensers, filling and sealing containers of standard sizes.

For example, at the Fort Lee, Va., store, which began selling Dannon yogurt on Nov. 14 last year, Eurpac Service Co. employs a full-time manager and eight servers for its co-located yogurt and pizza concessions. They operate whenever the store is open — 5½ days a week.

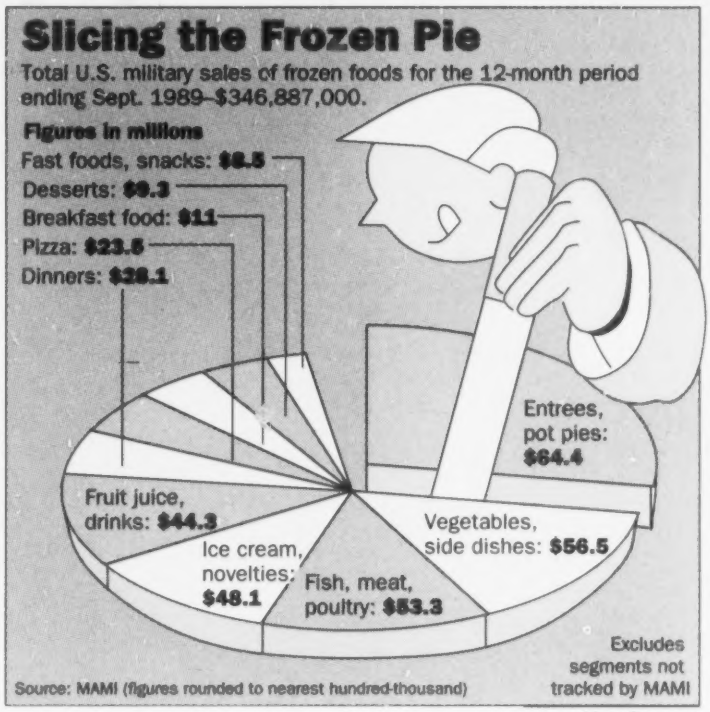
The cost is $1.69 a pound, compared with $1.99 in commercial stores. Manager Marilyn Alvarez told MILITARY MARKET that yogurt sales average about $300 a week. It takes 48 hours to thaw the yogurt after it is delivered by the distributor. Then it is dispensed from the machine and stocked in a refrigerated case for customer selection. Seventeen flavors are available, with two featured each day. The server can fill special orders if the flavor is loaded in the machine.

As of December, six Army commissaries had dispensers: Fort Lee; Fort Drum, N.Y.; Fort Monmouth, N.J.; Fort Sam Houston, Texas; Fort Rucker, Ala.; and Patch Barracks, Germany. Three more stateside stores and 16 overseas were to be brought into the program beginning in January. The European stores sell Elgin-Honey Hill yogurt managed by Sarvis, Inc.

As of January, 33 Air Force stores in ConUS, one in the Pacific and one in Europe had programs. The contractor for stateside stores is R & R Brokerage, based in Ohio.

Navy commissaries involved include Jacksonville, Orlando, Little Creek, NB Norfolk, Miramar, NS San Diego, and Imperial Beach. Contractors include Eurpac and AGS Foods.

The Marine Corps East Coast Commissary Complex is working with a vendor to develop a program, hopefully by summer.


Slicing the Frozen Pie
Total U.S. military sales of frozen foods for the 12-month period ending Sept. 1989–$346,887,000.
Figures in millions
Fast foods, snacks: $8.5
Desserts: $9.3
Breakfast food: $11
Pizza: $23.5
Dinners: $28.1
Entrees, pot pies: $64.4
Vegetables, side dishes: $56.5
Fish, meat, poultry: $53.3
Ice cream, novelties: $48.1
Fruit juice, drinks: $44.3
Excludes segments not tracked by MAMI
Source: MAMI (figures rounded to nearest hundred-thousand)

Marty Baumann

An example is ConAgra's Kid Cuisine frozen dinners, which began rolling national in November after a successful 6-month test.

Vegetables

According to *Progressive Grocer*, prepared vegetables is "one of the hottest categories in the frozen food case," with sales up 12.86 percent in 1988. The Frozen Vegetable Council reports sales of regular and prepared frozen vegetables up 15.3 percent in 1988.

An analyst at FIND/SVP market research firm predicts the compound annual growth rate for microwaveable vegetables to be 7 percent through 1994.

MAMI includes frozen prepared vegetables in its side dish segment, which is up 1.42 percent. Frozen regular vegetables are up 14.77 percent.

Shelf-Stable Products

According to *Ad Age*, shelf-stable and refrigerated meals will give increased competition to frozens. A Find/SVP researcher predicts shelf-stable foods could take away as much as 10 percent of frozen sales by the year 2000.

However, AFCOMS reports that, so far, shelf stable foods haven't really had an impact on frozen sales in Air Force commissaries.

Many of the shelf-stable items are made by precooking the foods at a high temperature, usually 250 degrees Fahrenheit, to kill all microorganisms. Then the product can sit on a shelf for a year or more.

Retailers like shelf-stable foods because they cut energy, transportation, storage and handling costs. The savings for distribution is about 25 percent.

A recent arrival is a 6-item line from Pet Inc. Marketed with an emphasis on health (low-calorie, cholesterol, sodium, etc.) Progresso To:Go began to appear in test markets this January. Test markets include Baltimore/Washington; St. Louis; and Seattle/Tacoma, Wash. Del Monte is expanding distribution for Vegetable Classics, which could be national by the end of 1990. MM

MAMI Top 10s

Entrees

Rank	Brand	Product
1	*Stouffers*	Macaroni and Cheese
2	*Maple Leaf*	Chicken Cordon Bleu
3	*Gorton*	Fish Sticks
4	*Lean Cuisine*	Glazed Chicken
5	*Stouffers*	Creamed Chipped Beef
6	*Banquet*	Hot Bites Chicken Nuggets
7	*Tyson*	Chicken Rondolette Breast Patty
8	*Stouffers*	Lasagna
9	*Banquet*	Salisbury Steak with Gravy
10	*Lean Cuisine*	Spaghetti with Beef Mushroom Sauce

Dinners

Rank	Brand	Product
1	*Banquet*	Fried Chicken
2	*Banquet*	Salisbury Steak
3	*Banquet*	Turkey
4	*Swanson*	Fried Chicken White Meat
5	*Swanson*	Turkey
6	*LeMenu*	Sirloin Tips
7	*Banquet*	Combo Mexican Style
8	*Swanson Hungryman*	Fried Chicken White Meat
9	*Swanson*	Salisbury Steak
10	*LeMenu*	Yankee Pot Roast

Based on package sales for the 12 months ending 9/89

SOURCE: Military Audits of Market Information, Inc.